

VZCZCXR05083
PP RUEHDE RUEHDIR
DE RUEHKU #4561/01 3380827
ZNY CCCCC ZZH
P 040827Z DEC 06
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC PRIORITY 7764
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 03 KUWAIT 004561

SIPDIS

NOFORN
SIPDIS

FOR NEA/ARP, EB

E.O. 12958: DECL: 12/03/2011

TAGS: ECON EINV EPET KU

SUBJECT: AMIRI ADVISOR DISCUSSES AMIR'S PRIORITIES AND
KUWAITI ECONOMIC ISSUES

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b) and (d).

¶1. (C/NF) Summary: On 2 December, Ambassador met with Khaled Al-Fulaij, advisor to the Amir and former chairman of Kuwait Oil Company, to discuss the Amir's economic agenda and to solicit Al-Fulaij's perspective on current economic and political issues. Al-Fulaij explained that three of the Amir's top priorities are: (1) bolstering Kuwait's research and development capacity, (2) improving education, and (3) creating better domestic health services to reduce the cost of subsidizing Kuwaiti citizens for medical treatment abroad.

Regarding the oil sector, Al-Fulaij said that the \$8.5 billion Kuwait Project to develop Kuwait's northern fields in partnership with international oil companies (IOCs) was still a priority for the Amir although the Energy Minister has been preoccupied with the problem of power shortages. On developing Kuwait's newly discovered 35 trillion cu. ft. gas field, Al-Fulaij said Kuwait Oil Company (KOC) was still working with IOCs to conduct an assessment, but he added that long-term prospects of developing gas for both domestic use and export looked positive. Regarding the recent suspension and review of several major Build-Operate-Transfer (BOT) projects, he suggested that few if any of these projects would be canceled although some companies may incur penalties for acting without proper government approval. On the recent regulatory action taken by the Kuwait Stock Exchange against several companies, Al-Fulaij dismissed rumors that this is actually about a conflict between the ruling family and powerful merchant families and said that the matter was more about enforcement of a long dormant regulation which needs to be revised. End summary.

Three Priorities of the Amir

¶2. (C/NF) In a 2 December meeting with the Ambassador, Advisor to the Amir and former KOC Chairman Khaled Yousef Abdulaziz Al-Fulaij laid out three priorities that Kuwaiti Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah had asked him to work on. First was to improve Kuwait's capacity for research and development. Al-Fulaij explained that the Amir was disappointed with the performance of the Kuwait Institute for Scientific Research (KISR) and wanted to bring in outside experts to participate in a study to map out a "strategic path for research and development" activity in Kuwait. Al-Fulaij referred specifically to the Amir's interest in alternative energy, agricultural science, and water treatment as examples of prospective areas of focus. Second, Al-Fulaij mentioned the Amir's interest in improving Kuwait's educational system but offered no specifics. Third, Al-Fulaij said the Amir wants to improve the quality of domestic health services through partnership with respected international health care providers. Al-Fulaij talked about creating an international hospital in Kuwait along the lines of similar centers in Dubai and Qatar. Currently, the GOK

subsidizes many Kuwaiti citizens for medical treatment abroad at great expense to the national budget.

Oil and Gas Developments

¶ 13. (C/NF) Turning to the energy sector, Al-Fulaij said getting parliamentary approval of the \$8.5 billion Kuwait Project to develop four of Kuwait's most complex northern oil fields in partnership with IOCs was still one of the Amir's top priorities. He said that the current political environment in which the new Energy Minister is being blasted by the media and Parliament over power shortages makes passage of the project difficult. He added that the Energy Minister still wants to develop a more comprehensive understanding of the details of the project before bringing it before the Parliament again. Al-Fulaij said that one factor working in the Government's favor was that most of the Members of Parliament on the relevant oversight committees have not changed and already have an understanding of the project. He suggested this should make it easier to approve the project once the political timing is right. On development of the 35 trillion cu. ft. (est.) Jurassic gas discovery announced in March, Al-Fulaij said that KOC was still working closely with IOCs to map the field and come up with a development plan. Al-Fulaij said that the gas condensate field which he believes to extend almost from the northern border all the way to Kuwait City contains sour gas in the north and sweeter gas in the south. He said that KOC is currently building temporary facilities to test the quality, quantity, and pressure of the gas which the Government would like to produce for domestic use in power stations and petrochemical plants as well as for export.

KUWAIT 00004561 002 OF 003

Build-Operate-Transfer Projects

¶ 14. (C/NF) Regarding the Government's suspension and review of several major Build-Operate-Transfer (BOT) projects including several contracts with Kuwait-based Agility (formerly Public Warehousing Company), Al-Fulaij said that few if any of these projects were likely to be canceled. Instead, he thought it more likely that some of the companies involved would be forced to pay penalties. (Note: The Finance Minister announced on 28 November that the Government had suspended a number of major contracts with private investors in response to a report from the Audit Bureau citing large-scale contract violations. Local Kuwaiti press on 3 December reported that the Commerce Ministry had announced the termination of three projects with Agility. End note.) Al-Fulaij said that at the core of the BOT controversy was the somewhat confusing division of responsibilities between the Municipality and the Ministry of Finance. He said that in some cases, companies had proceeded with projects under the belief that they had obtained the relevant authorization when, in fact, they had not. He said in other cases it appeared that some companies had flagrantly exceeded the authority granted in their contracts. Al-Fulaij emphasized the Amir still strongly supported BOT projects as a vehicle to attract private investment. Al-Fulaij said that the solution was for the Government to establish a single point of contact to coordinate BOT projects with investors.

Regulation of the Kuwait Stock Exchange

¶ 15. (C/NF) On the recent regulatory action taken by the Kuwait Stock Exchange against several firms, Al-Fulaij denied rumors that this is actually about a conflict between the ruling family and powerful trading families and said that the matter was more about enforcement of a long dormant regulation which needs to be revised. (Note: On 19 November, the Kuwait Stock Exchange (KSE) index dropped by

3.5 per cent following a decision by the Market Committee to withdraw voting rights from stocks held by the Al-Kharafi Group, a juggernaut of the KSE, in ten listed companies. Kharafi is also effectively banned from trading its shares in these companies for six years. The complaint filed with the Market Committee alleged that the Al-Kharafi Group had failed to conform with market regulations in its apparent efforts to acquire a controlling interest in these companies without making the required disclosure. (End Note). Al-Fulaij explained that according to a rarely enforced regulation, investors must disclose any ownership stake greater than 5% in a listed company. He says that in this case, a firm had acquired more than 5% of several companies by investing through various subsidiaries but had failed to make the requisite declaration. (Note: The local press has been reporting that Kharafi surreptitiously acquired the voting rights associated with these shares in an effort to force management changes in some of the companies, especially one previously controlled by the Al-Sager Group, a long-time Kharafi rival. End note.) Al-Fulaij said the regulation is out-of-date and needs to be revised. Otherwise, he indicated, up to 150 companies could be affected. Al-Fulaij expressed hope that ongoing efforts by the Ministry of Commerce, which is being advised by the National Association of Securities Dealers (NASD) would produce more effective and more transparent mechanisms to regulate the KSE.

Bigger Government?

16. (C/NF) Separately, Al-Fulaij mentioned that the Amiri Diwan was contemplating a proposal to increase the number of elected Members of Parliament from 50 to 60 and the number of Ministers from 15 to 20. Al-Fulaij explained that if the Government were to decide to proceed with this proposal, it would require a constitutional amendment. (Comment: Article 80 of the Constitution states that "the National Assembly shall be composed of fifty members." While the amendment would prevent Ministers from being assigned multiple portfolios, most MPs and political activists oppose the proposal, arguing that it would open the door for further amendments of the Constitution. End comment.)

Bio Note

17. (SBU) Al-Fulaij was born in 1953. He graduated from the University of Tulsa with a BA in Mechanical Engineering in 1975. He joined the Kuwait Oil Company in 1975 and remained

KUWAIT 00004561 003 OF 003

with the company until 1992. In addition to his role as economic advisor to the Amir, he is the Chairman of the Al-Fulaij United Group and Deputy Chairman of the Heavy Engineering Industries and Ship Building Company. He is married and has six children.

For more reporting from Embassy Kuwait, visit:
<http://www.state.sgov.gov/p/nea/kuwait/?cable s>

Visit Kuwait's Classified Website:
<http://www.state.sgov.gov/p/nea/kuwait/>

LEBARON